

# INSTRUCTIONS FOR FORM N-342 RENEWABLE ENERGY TECHNOLOGIES INCOME TAX CREDIT

(FOR SYSTEMS INSTALLED AND PLACED IN SERVICE ON OR AFTER JULY 1, 2009)

(NOTE: References to “married”, “unmarried”, “spouse”, and “husband and wife” also means “in a civil union”, “not in a civil union”, “civil union partner”, and “civil union partners”, respectively.)

## CHANGES YOU SHOULD NOTE

For taxable years beginning after December 31, 2008, Act 154, Session Laws of Hawaii (SLH) 2009, made the following changes to the provisions of the renewable energy technologies income tax credit for renewable energy technology systems that are installed and placed in service on or after July 1, 2009:

- Removes the solar thermal and photovoltaic classifications, and provides a single solar classification.
- Applies a lower solar system cap to a system if the primary purpose of that system is to use energy from the sun to heat water for household use.
- Provides the taxpayer with an election to treat the tax credit as refundable.
- Allows residential home developers to claim the tax credit.
- Clarifies that the tax credit cannot be claimed for a solar water heating system that is required for new single-family residential property constructed on or after January 1, 2010. The tax credit also cannot be claimed for a wind-powered energy system that is used as a substitute for the required solar water heating system. The tax credit is reduced for a solar energy system that is used as a substitute for the required solar water heating system.

The Department of Taxation has issued temporary administrative rules that focus on the calculation of the renewable energy technologies income tax credit for “other solar energy systems”, including photovoltaic systems, installed and placed in service on or after January 1, 2013. “Total output capacity” is now the key factor in what determines a system on which a credit can be claimed. The “total output capacity” requirements are as follows:

- Single-family residential property - at least 5 kilowatts per system
- Multi-family residential property - at least 0.360 kilowatts per unit system
- Commercial property - at least 1,000 kilowatts per system

See Department of Taxation Announcement No. 2009-09, *Act 154, SLH 2009, Relating to Taxation*, Tax Information Release (TIR) No. 2007-02, *Relating to the Renewable Energy Technologies Income Tax Credit*, TIR No. 2010-10, *Common Income Tax & General Excise Tax Issues Associated with the Renewable Energy Technologies Income Tax Credit*, HRS §235-12.5, and TIR No. 2012-01, *Temporary Administrative Rules Relating to the Renewable Energy Technologies Income Tax Credit*, for more information.

## COMPOSITE FILING OF FORM N-342

For taxable years that begin on or after January 1, 2011, any individual or corporate taxpayer who is eligible to claim the renewable energy technologies income tax credit for **10 or more** systems or distributive shares of systems installed and placed in service in a single tax year may file a **composite Form N-342**. A composite Form N-342, which is designated with the word “COMPOSITE” printed in capital letters at the top of the form, is used to report the total amounts from Form N-342C, Composite Schedule for Form N-342. For more information and instructions on filing a composite Form N-342, see Department of Taxation Announcement No. 2012-01 and the Instructions for Form N-342C. **Note:** *Failing to properly file and/or comply with the terms and conditions for composite filing (e.g., filing a composite Form N-342 to claim the renewable energy technologies income tax credit for less than 10 systems installed and placed in service in a single tax year) may result in the disallowance of all or part of the credits and the revocation of the election to composite file.*

## GENERAL INSTRUCTIONS

**Note:** For a carryover of the credit for systems installed and placed in service before July 1, 2009, see Form N-323.

**Note:** If you have carryover credit(s) and are also claiming a credit for an eligible system installed and placed in service in the 2013 tax year, complete one Form N-342 for the carryover credit(s) and then a separate Form N-342 for each eligible system installed and placed in service in the 2013 tax year.

**Note:** If you are claiming the Ethanol Facility Tax Credit, no other credit can be claimed for the same taxable year.

### REQUIREMENTS FOR CLAIMING THE TAX CREDIT

Each individual or corporate taxpayer may claim a tax credit against the Hawaii net income tax or franchise tax liability for an eligible renewable energy technology system installed and placed in service in Hawaii. The tax credit shall apply only to the actual cost of the solar or wind-powered energy system, including their accessories and installation, and shall not include the cost of consumer incentive premiums unrelated to the operation of the system or offered with the sale of the system (such as “free gifts”, offers to pay electricity bills, or rebates) and costs for which another credit is claimed. The dollar amount of any utility rebate shall be deducted from the cost of the qualifying system and its installation before determining the State credit.

The tax credit cannot be claimed for a solar water heating system that is required for new single-family residential property constructed on or after January 1, 2010. The tax credit also cannot be claimed for a wind-powered energy system that is used as a substitute for the required solar water heating system. For a solar energy system that is used as a substitute for the required solar water heating system, the tax credit is reduced by the lesser of 35% of the actual system cost or \$2,250.

A taxpayer may elect to treat the tax credit as nonrefundable or refundable. If a taxpayer elects to treat the tax credit as nonrefundable, the tax credit allowed shall be claimed against the net income tax liability for the taxable year. A tax credit that exceeds the taxpayer’s income tax liability may be used as a credit against the taxpayer’s income tax liability in subsequent years until exhausted. A taxpayer may elect to treat the tax credit as refundable under the following circumstances:

- For solar energy systems, a taxpayer may elect to reduce the eligible credit amount by 30%. If this reduced amount exceeds the amount of income tax payment due from the taxpayer, the excess of the credit amount over payments due will be refunded to the taxpayer.
- For any renewable energy technology system, an individual taxpayer may elect to have any excess of the credit over payments due refunded to the taxpayer without any further reduction if (1) ALL of the taxpayer’s income is exempt from taxation under section 235-7(a)(2), Hawaii Revised Statutes (HRS), i.e., distributions from a public retirement plan or system, or section 235-7(a)(3), HRS, i.e., any compensation received in the form of a pension for past services; or (2) the taxpayer has Hawaii adjusted gross income of \$20,000 or less (or \$40,000 or less if filing a tax return as married filing jointly).

A husband and wife who do not file a joint tax return shall only be entitled to make this election to the extent that they would have been entitled to make the election had they filed a joint tax return.

A separate election may be made for each separate system that generates a tax credit. **Once an election is made to treat the tax credit as nonrefundable or refundable, the election cannot be revoked.** An amended return cannot be filed to change the tax credit from nonrefundable to refundable or from refundable to nonrefundable.

**All claims for credit, including any amended claims, must be filed on or before the twelfth month following the close of the taxable year for which the credit may be claimed.**

Multiple owners of a single renewable energy technology system shall be entitled to a single tax credit. Further, the tax credit shall be apportioned between the owners in proportion to their contribution to the cost of the system. The tax credit may be claimed for the following renewable energy technology systems installed and placed in service in Hawaii on or after July 1, 2009:

Type of Renewable Energy Technology System	Tax Credit Rate
1. Solar energy systems - Primary purpose is to use energy from the sun to heat water for household use	
a. Single-family residential property.	The lesser of 35% of the actual cost of the system or \$2,250.

(Continued on back)

- b. Multi-family residential property. Per building unit:  
The lesser of 35% of each unit's actual cost of the system or \$350.
- c. Commercial property. The lesser of 35% of the actual cost of the system or \$250,000.

**Solar energy systems - All other solar energy systems**

- a. Single-family residential property. The lesser of 35% of the actual cost of the system or \$5,000.
- b. Multi-family residential property. Per building unit:  
The lesser of 35% of each unit's actual cost of the system or \$350.
- c. Commercial property. The lesser of 35% of the actual cost of the system or \$500,000.

**2. Wind-powered energy systems**

- a. Single-family residential property. The lesser of 20% of the actual cost of the system or \$1,500.
- b. Multi-family residential property. Per building unit:  
The lesser of 20% of each unit's actual cost of the system or \$200.
- c. Commercial property. The lesser of 20% of the actual cost of the system or \$500,000.

**DEFINITIONS****FOR PURPOSES OF THE TAX CREDIT**

"Actual cost" means costs related to the renewable energy technology systems provided by section 235-12.5(a), HRS, including accessories and installation, but not including the cost of consumer incentive premiums unrelated to the operation of the system or offered with the sale of the system and costs for which another credit is claimed under Chapter 235, HRS.

"Household use" means any use to which heated water is commonly put in a residential setting, including commercial application of those uses.

"Renewable energy technology system" means a new system that captures and converts a renewable source of energy, such as solar or wind energy into:

- (1) A usable source of thermal or mechanical energy;
- (2) Electricity; or
- (3) Fuel.

"Solar or wind energy system" means any identifiable facility, equipment, apparatus, or the like that converts solar or wind energy to useful thermal or electrical energy for heating, cooling, or reducing the use of other types of energy that are dependent upon fossil fuel for their generation.

**SPECIFIC INSTRUCTIONS**

**Note:** Multiple owners of a single system are entitled to a single tax credit. This means that if two people purchased and installed an eligible renewable energy technology system in Hawaii and they jointly incur \$6,000 in costs for the system, the total credit claimed by the two people cannot exceed \$2,250 for a solar energy system where the primary purpose is to use energy from the sun to heat water for household use, \$5,000 for all other types of a solar energy system, or \$1,500 for a wind-powered energy system.

**Note:** If you are claiming carryover credit(s), skip lines 1 through 47 and begin on line 48.

For eligible systems installed and placed in service in the 2013 tax year, be sure to enter in the appropriate space (1) the physical property address where the system was installed and placed in service (enter "CARRYOVER", if claiming carryover credit(s)), and (2) the date the system was installed and placed in service (leave blank, if claiming carryover credit(s)).

**Lines 1 through 41** — Fill in the lines as they apply to your claim.

**Lines 1 or 27** — Enter the qualifying cost of the eligible renewable energy technology system installed and placed in service in Hawaii. Do not claim more than your share of the costs if there are multiple owners of the eligible renewable energy technology system.

**Lines 8, 20, and 33** — The per unit cost of a solar or wind-powered energy system installed and placed in service in Hawaii in a multi-family residential property may be determined as follows:

Total square feet of your unit

Total square feet of all units in the multi-family residential property x The actual cost of the system

If the above per unit cost calculation does not fairly represent the owners' contribution to the cost of the system, provide an alternative calculation.

**Line 42** — Make the election to treat the tax credit as refundable or nonrefundable by checking the appropriate box. **Once an election is made to treat the tax credit as nonrefundable or refundable, the election cannot be revoked or amended.**

**Lines 43 through 47** — If you are claiming the credit as **refundable**, complete lines 43 through 47 as they apply to your claim.

**Lines 48 through 55** — If you are claiming the credit as **nonrefundable**, complete lines 48 through 55 as they apply to your claim.

**Line 48** — If you have unused renewable energy technologies income tax credit(s) (for one or more systems installed and placed in service on or after July 1, 2009) to carry over from the prior year, enter the total carryover amount on this line. If you have carryover credit(s) and are also claiming a credit for an eligible system installed and placed in service in the 2013 tax year, complete one Form N-342 for the carryover credit(s) and then a separate Form N-342 for each eligible system installed and placed in service in the 2013 tax year.

**Line 49** — Enter the amount from line 14, 26, 39, 40, or 41.

**Line 51** — Enter the amount from the appropriate line of your tax return.

**Line 52** — The law requires that ALL other credits offset a taxpayer's tax liability BEFORE allowing a renewable energy technologies income tax credit. **Complete the Credit Worksheet** in these instructions and enter the result on line 52. If you are claiming the nonrefundable renewable energy technologies income tax credit for multiple systems, enter on line h of the Worksheet the amount of tax credit that is being claimed on line 54 of other Form(s) N-342 that you have already completed for the taxable year.

**Line 54** — Enter the smaller of line 50 or 53 here. This is your maximum credit allowed for this taxable year.

**Line 55** — Tax credits which exceed the taxpayer's net income tax liability may be used as a credit against the taxpayer's net income tax liability in subsequent years until exhausted.

**CREDIT WORKSHEET**

Tax Credit	Amount
a. Income Taxes Paid to Another State or Foreign Country .....	_____
b. Enterprise Zone Tax Credit .....	_____
c. Carryover of the Energy Conservation Tax Credit.....	_____
d. Credit for Employment of Vocational Rehabilitation Referrals .....	_____
e. Carryover of the Individual Development Account Contribution Tax Credit .....	_____
f. Credit for School Repair and Maintenance .....	_____
g. Carryover of the Renewable Energy Technologies Income Tax Credit (For Systems Installed and Placed in Service Before July 1, 2009).....	_____
h. Nonrefundable Renewable Energy Technologies Income Tax Credit (Form N-342) .....	_____
i. Add lines a through h. Enter the amount here and on line 52. ....	_____